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**Health Reform: Comments On Increasing Access And Affordability  
For America's Job Creators**

America's current system of health insurance and healthcare is financially unsustainable and threatens the health and financial security of the American people. Small business owners and their employees are especially vulnerable to the weaknesses of our current system. More than 80 percent of small business owners say accessing affordable healthcare for themselves and their employees is a challenge. The National Federation of Independent Business (NFIB) supports comprehensive healthcare reform that addresses the needs of small employers, their employees and the self-employed. These comments were requested by Chairman Charles B. Rangel at the April 29, 2009 hearing on Health Reform in the 21st Century: Employer Sponsored Insurance hosted by the House Ways and Means Committee.

The small business community is all too familiar with the impact of high healthcare costs. For more than two decades, NFIB research has reinforced what small business owners across the country tell us every day – the most significant obstacle to gaining access to health insurance is the prohibitive cost of coverage. Since 1999, health insurance costs for small firms have increased 113 percent. In spite of the increases, the ever-escalating cost does not correlate with increased healthcare benefits. Instead, employees in our nation's smallest firms pay an average of 18 percent more in health insurance premiums for the same benefits than those in the largest firms.

The goals of reform are clear: to reduce cost in the system, increase affordability, lower costs for small business, provide an easier way to shop for insurance and expand the number of choices when buying insurance plans. Only then can small businesses, their employees and families have greater access to a competitive marketplace where private, quality healthcare is affordable and available to all consumers.

### **Delivery System Reform**

Reducing long-term costs is essential to maintaining the quality of healthcare and to expanding its reach to those currently lacking coverage. Lower costs require us to fundamentally alter the delivery systems and the incentives that drive them. Our medical education system reflects early 20<sup>th</sup> Century realities; the result is an excess of specialists and a shortage of primary care physicians, nurse practitioners, and other physician extenders. Our models of treatment are driven by inflexible, outdated reimbursement systems designed nearly half a century ago and only moderately tweaked since then. The result is uncoordinated providers prescribing fragmentary care, rather than coordinated teams focusing as a unit on the good of the patient. Alternative models like those practiced by Geisinger and Mayo suggest possible approaches, though it is likely that real savings will come from, as yet, "undreamed" of models of care. We can see the beginnings of such reforms in programs already on the table: medical homes, outcome-based compensation, health information technology initiatives and alternative provider compensation schemes. Any lasting reform must permit and encourage such delivery system experimentation, because as we have seen from the industries like computers and telecommunications, the greatest advances will come from the most unexpected places.

### **Provide Advanceable Refundable Credits Or Other Subsidies For Low-Income Americans**

All Americans, regardless of income, need access to quality affordable health insurance. This requires some form of assistance for those unable to afford such coverage. Steps should be taken to ensure people wanting private coverage can easily access all options available to them.

### **Guaranteed Issue In The Individual Market**

In today's individual and small group market, individuals make choices about where to get their healthcare coverage. Having guaranteed issue in the group market and not in the individual market creates perverse incentives. For example, if an individual is searching for employment and happens to have a health problem, chances are that they will look for an employer offering group insurance. This is one manifestation of job lock – where one's employment decision is made on the basis of health insurance, rather than on the qualities of the job itself. Research by Gruber and Madrian shows how employer-provided health insurance plays a significant role in decisions on job change. Ensuring access to the individual market will go a long way to level the playing field for health insurance purchasers in all of the different marketplaces where they purchase policies.

### **Implement National Insurance Market Reform**

National rating rules are long overdue for the individual and small group market. Currently, individuals in most states can either be denied coverage based on health status (rating) or can be priced out of the marketplace due to an illness. Under small group law in most states, the onset of illness in one enrollee can push the business's rates up by 50 percent at renewal. In both scenarios, people become uninsurable, they lose coverage due to cost, or the employer is hit with an excessive rate increase. Reformed rating will provide better parity between two marketplaces that are frequently visited by individuals and small group lives. While certain rating characteristics should be set nationally, states should retain significant discretion over some specifics, such as the width of rating bands.

### **Simplify the Shopping Experience**

The current individual market makes it difficult for insurers to reach purchasers and makes it difficult for purchasers to rationally assess options. Today's small group market similarly limits choices by employers and employees. Employers are hamstrung by participation rate requirements. Shopping for policies excessively distracts them from running their businesses. Employees generally have only one employer-chosen policy available. Health insurance exchanges can reduce some of these shortcomings by serving as a clearinghouse of options for individuals, employers, and employees. An employer can voluntarily designate the exchange as its employer group "plan" for employees. This arrangement qualifies as an employer-sponsored plan for purposes of federal law, allowing employees to purchase coverage of their choice through the exchange on a pre-tax basis.

### **Make It Permissible For States To Enter Into Voluntary Multi-State Exchanges**

GAO recently released its third study focused on marketplace concentration. The report confirmed a marked increase in the concentration in state markets. The report found that the five largest carriers in the small group market, when combined, represented at least three-quarters of the market in 34 of the 39 states responding to the survey, and they represent 90 percent or more in 23 of these states.<sup>1</sup> Allowing states to have the option to combine efforts in purchasing more affordable, quality coverage should be available as an option. Small states like Maine, Montana or Wyoming may see merit in combining efforts to increase the size of their pool and to attract more competition in the marketplace.

### **Enact Administrative Cost Savings Measures**

Insurers must streamline the process of enrolling in an insurance plan or changing plans. Today's administrative inefficiencies render this process complicated, time-consuming and excessively expensive. Most of these inefficiencies lay at the state level. Congress should work with the states to implement models that promote streamlined regulatory structures.

### **Provide Greater Portability Of Coverage**

People should be able to move from one job to another, between a job and no job, and from state to state without losing insurance coverage or encountering excessive cost increases, whether costs are borne by the individual or by an employer. In part, this goal can be met through more affordable, transparent policies and lower administrative costs. The goal is an insurance market in which subscribers experience relatively seamless transition when moving between group and non-group policies.

### **Tax Equity For Individuals And The Self-Employed**

Tax laws should not push individuals into employer-provided or government-provided insurance programs and hobble the market for individually purchased policies. Tax laws riddle the health insurance market with inefficiencies. An employer who buys insurance for employees can write off the cost on their taxes. But if employees wish to purchase different policies on their own, they

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<sup>1</sup> GAO, Private Health Insurance: 2008 Survey Results on Number and Market Share of Carriers in the Small Group Health Insurance Market.

receive no tax benefit. Individuals should be allowed to utilize pre-tax dollars to purchase the health insurance policy of their choice. The self-employed should also have equal tax treatment for purchase of health insurance.

### **Danger Ahead: Roadblocks To Reform**

Some reform ideas may sound appealing but, in fact, would have severe negative effects both on healthcare markets and on the economy in general. For example, employer mandates (with minimum contribution requirements), or equivalent pay-or-play requirements or payroll taxes, are bad for small employers, bad for low-income workers, and bad for the economy. They adversely affect small employers by raising payroll costs, eroding competitive positions, and increasing start-up costs, making it particularly difficult for firms operating on small margins. Employer mandates adversely affect the low-income employees because they result in lost employment, depressed wages, and lost work hours. They adversely affect the economy because they discourage production – often in firms with the most vulnerable employees and employers. Recent NFIB research data shows an employer mandate would cause the economy to lose over 1.6 million jobs.<sup>2</sup> Overall, mandates are bad for any size employer but this research shows small firms would be most adversely affected by the mandate and account for approximately 66 percent of all jobs lost.<sup>3</sup>

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<sup>2-3</sup> Chow, Michael and Bruce Phillips, Small Business Effects of a National Employer Healthcare Mandate, NFIB, January 2009.

## **Examples Of Workable And Meaningful Reform: Learning From Existing Legislation**

**Insurance Market Reform:** The Small Business Health Options Program (SHOP) Act (H.R. 2360) represents a bipartisan, common sense approach to small business healthcare reform in a voluntary setting. The goals of reform are clear: to lower costs for small business, provide an easier way to shop for insurance and expand the number of choices when buying insurance plans. It allows small employers to increase purchasing power by joining their state's purchasing pool, allows for a nationwide pool by 2012 and incentivizes small business participation with a targeted tax credit. The bill also seeks to increase premium predictability through national insurance rating reforms and, over time, allows the individual to select plans that best meet his or her needs. Finally, consumer protections are maintained at the state level and an appropriate time period for reform is adopted to ensure a smooth transition

**Tax Equity for the Self-Employed:** The Equity for Our Nation's Self-Employed Act (H.R. 1470) puts self-employed businesses on equal footing with their larger counterparts by permitting health insurance premiums to be deducted from both their income and payroll taxes – a practice currently allowed only for larger businesses. Under the current tax code, corporations are able to deduct health insurance premiums as a business expense and to forego FICA taxes on these costs. However, the self-employed are not allowed this same deduction and thus, are required to pay an additional 15.3 percent self-employment tax on their health insurance premiums. The self-employed are the only segment of the business population that pays this extra tax on health insurance. If enacted, a self-employed individual with a per-year premium of \$10,880 would save \$1,664.64 (15.3 percent) that he or she currently pays in taxes on their health insurance.

**Affordability:** Pharmaceutical Market Access and Drug Safety Act (H.R. 1298) would allow for the importation of prescription drugs while ensuring that appropriate safeguards are in place to protect the integrity of imported medications. Importation offers a means of reducing one of the most rapidly rising healthcare costs facing consumers today – spending on prescription drugs. This much-needed bipartisan legislation comes at a critical time for the small-business community, where firms pay an average of 18 percent more than their larger counterparts in health insurance premiums. With U.S. prescription drug spending expected to increase over the next decade, it is clear the small business community must pursue viable opportunities to improve affordability and access to health-care goods and services. Seventy-eight percent of NFIB members support allowing individuals to purchase FDA-approved drugs from other countries – similar to research affirming that 80 percent of Americans support importation.

## **Conclusion**

Any successful reform must create a marketplace that works for all purchasers. Building on the strengths of the current system while ensuring new competitive marketplaces to purchase coverage will truly transform the system for the better. Getting overall healthcare costs down needs to remain a major priority in this reform effort. Balancing these two goals will go a long way toward enabling everyone to secure quality affordable coverage.

We appreciate the committee's interest and dedication to solving the healthcare affordability crisis. Healthcare reform is the NFIB's number one priority, and we are committed to working with Congress and the White House to develop solutions that decrease healthcare costs and increase access to quality healthcare – for small business and all Americans.